

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3933

May 26, 2005

**R E S O L U T I O N**

Resolution E-3933. Pacific Gas and Electric Company (PG&E) submits electric tariff revisions to implement in rates the revised 2005 Department of Water Resources (DWR) revenue requirement and the Transmission Access Charge Balancing Account revenue requirement effective June 1, 2005 pursuant to Decision (D.) 05-04-025. This resolution considers PG&E's unopposed request to implement new rates in a manner which deviates from D.04-02-062.

By Advice Letter (AL) 2647-E-B filed on May 13, 2005.

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**SUMMARY**

**This Resolution conditionally approves with modifications PG&E's proposed electric tariff revisions filed in Advice Letter 2647-E-B.**

PG&E filed Advice Letter (AL) 2647 E-B, proposing to supercede AL 2647-E-A which requested authorization to comply with D.05-04-025, the Opinion Allocating the Revised 2005 Revenue Requirement Determination of the California Department of Water Resources (DWR). In this advice letter, PG&E consolidates three revenue requirement changes: the 2005 DWR bond charge, 2005 DWR Power Charge Tariff and Remittance Rate, and the 2005 Transmission Access Charge Balancing Account Adjustment (TACBAA), into a single electric rate change. The new rates will become effective on June 1, 2005 pursuant to D.05-04-025.

AL 2647-E-B proposes a revenue allocation and rate design that deviates from the revenue allocation principles approved by the Commission in D.04-02-062. AL 2647-E-B incorporates revenue allocation principles proposed in a Settlement Agreement filed in A.04-06-024. Specifically, the Settlement Agreement and AL 2647-E-B propose that the residential class forgo revenue requirement reductions stemming from D.05-04-025. The allocation approved in D.04-02-062 would allocate the revenue requirement decrease to all customer classes, including the

residential class. By conditionally approving AL 2647-E-B we retain the option to consider the Settlement Agreement in A.04-06-024 and comply with the June 1, 2005 date adopted in D.05-04-025.

PG&E's request is conditionally approved with the following modifications:

- PG&E is required to track the revenues that it collects from the upper tiers of residential rates resulting from AB 1X limitations on residential tiers 1 and 2 (usage below 130% of baseline).
- In the event that a Commission order in A.04-06-024 rejects the revenue allocation proposed in the Settlement Agreement in A.04-06-024, PG&E shall within 30 days of that order:
  - File revised tariffs to implement the revenue allocation and rate design consistent with the methodology approved in D.04-02-062 as proposed AL 2647-E-A.
  - File an advice letter to return to the residential class the portion of the revenue requirement decrease as proposed in AL 2647-E-A, that was not reflected in rates from June 1, 2005, until rates proposed in AL 2647-E-A are implemented.
- Within one day of the effective date of this order, PG&E shall supplement AL 2647-E-B with filed tariffs reflecting rates approved by this resolution. These rates shall become effective on June 1, 2005, subject to adjustment if any rates included in the supplemental filing do not comply with this resolution.

## **BACKGROUND**

**PG&E filed AL 2647-E in compliance with D.05-03-024 and to incorporate the Transmission Access Charge Balancing Account Adjustment (TACBAA) filed in AL 2648-E.**

On March 17, 2005, the Commission issued D.05-03-024 which allocated the 2005 DWR revenue requirement. Ordering Paragraph 5 of D.05-03-024 ordered PG&E to file an advice letter with revised tariffs that reflect the power charges approved in that decision, to be effective no later than May 1, 2005.

On March 23, the Commission issued a new draft decision for the 2005 DWR revenue requirement to supercede D.05-03-024. PG&E filed AL 2647-E in compliance with D.05-03-024 on April 1, 2005 providing a proposed remittance

rate and illustrative electric rate change based upon the March 23 draft decision. PG&E requested that AL 2647-E incorporate the TACBAA rate change filed in AL 2646-E in order to further its goal of consolidating rate changes. AL 2646-E was not protested.

**D.05-04-025 adopted a revised DWR revenue requirement and ordered that PG&E change its tariff rates no later than June 1, 2005 for a consolidated rate change including both DWR power and bond revenue requirements and TACBAA.**

On April 7, 2005, the Commission issued D.05-04-025, superceding D.05-03-024, determining the allocation of the revised 2005 DWR revenue requirement. Among the items ordered in D.05-04-025 were the following:

- 2005 Power Charges shall go into effect no later than June 1, 2005, and will remain in effect until further order of the Commission.
- PG&E should change its tariff rates effective no later than June 1, 2005, for a consolidated rate change including both the DWR power and bond revenue requirements, as well as for the TACBAA.

**PG&E filed AL 2647 E-A in compliance with D.05-04-025 to incorporate the DWR revenue requirement and TACBAA rate changes in its electric rates.**

On April 21, 2005, PG&E submitted supplemental AL 2647-E-A in compliance with D.05-04-025. In AL 2647-E-A, PG&E requests authorization:

- To comply with Ordering Paragraph 4 of D.05-04-025 to revise its tariffs that reflect the power charges shown in Appendix A of that Decision
- To consolidate the Commission approved 2005 DWR Bond Charge, the 2005 DWR Power Charge Remittance Rate, and the uncontested TACBAA rate change filed in AL 2648-E into one electric rate change

AL 2647-E-A states that implementation of PG&E's 2005 DWR revenue requirement decrease of approximately \$228 million and TACBAA rate change results in a net bundled revenue decrease of approximately \$208 million. In AL 2647-E-A, PG&E allocates these rate changes to all customer classes, including the residential class, consistent with current practice set forth in the Rate Design Settlement Agreement (RDSA) approved by D.04-02-062. According to data PG&E provided with AL 2647-E-A, the overall annual revenue requirement

reduction for bundled service residential customers is approximately \$63 million, or 2%.

**Current revenue allocation and rate design principles are detailed in the RDSA, approved by D.04-02-062.**

D.04-02-062, among other things, approved the RDSA. The RDSA provides revenue allocation and rate design principles for PG&E in the event that additional rate changes are required before the adoption of rates in Phase 2 of PG&E's 2003 GRC (A.04-06-024).

Paragraph 10 of the RDSA stipulates that revenue requirement changes for any given component are to be allocated to all customer classes by an equal percent change basis to the component that is changing. Rate components are adjusted commensurate to the average percent required to achieve the revenue requirement change.

**On May 13, 2005, PG&E filed a Settlement Agreement with the Settling Parties in Phase 2 of its 2003 General Rate Case (GRC).**

The scope of A.04-06-024, Phase 2 of PG&E's 2003 GRC, is to revise PG&E's marginal cost and revenue allocation to establish just and reasonable rates on a revenue neutral basis. A.04-06-024 is not a revenue requirement proceeding.

On May 13, 2005, PG&E and the Settling Parties in A.04-06-024 filed a Settlement Agreement resolving certain issues in the proceeding. Among other things, the Settlement Agreement addresses revenue allocation principles for any revenue requirement changes through for the remainder of 2005, as well as for changes in 2006 and 2007 prior to Phase 2 of PG&E's 2007 GRC. The Settlement Agreement proposes that revenue requirements decreases during that time frame, including the DWR revenue requirement decrease required by D.05-04-025, not be allocated to the residential customer class.

**The Settlement Agreement allocates the 2005 DWR revenue requirement reduction entirely to the non-residential classes.**

Specifically, the Settlement Agreement states that the residential class should forgo revenue requirement reductions stemming from the 2005 DWR revenue requirement. Instead, the revenue requirement decrease is allocated entirely to

the non-residential customer classes, so that total bundled residential customer rates will not change as a result of the DWR revenue requirement decrease.

The Settlement Agreement allocates the TACBAA revenue requirement increase to all customer classes, including the residential class, consistent with the RDSA. Within the residential customer class, the Settlement Agreement allocates revenue changes to tier 3 and tier 4 rates in excess of 130% of baseline.

**On May 13, 2005, PG&E filed AL 2647 E-B to request authorization to implement rates in a manner which deviates from the RDSA principles approved in D.04-02-062.**

On May 13, 2005, PG&E filed supplemental AL 2647-E-B proposing to supercede AL 2647-E-A. AL 2647-E-B requests authorization to implement the 2005 DWR revenue requirement and the TACBAA rate change filed in AL 2648-E into a single electric rate change effective June 1, 2005 to conform with the May 13, 2005 Settlement Agreement filed in A.04-06-024, but in a manner that deviates from the RDSA approved by D.04-02-062. PG&E provided illustrative rates in AL 2647-E-B. PG&E intends to supplement AL 2647-E-B prior to June 1, 2005 with actual rates that will be charged to customers. Specifically, PG&E seeks:

- To allocate the TACBAA rate increase of approximately \$19 million to all customer classes in the manner proposed in AL 2647-E-A, consistent with the current allocation practice set forth in the RDSA.
- To maintain residential Tier 1 and 2 rates for usage up to 130% of baseline usage at their current level and proportionally increase Tier 3 and 4 rates to reflect the TACBAA increase to their class.
- To allocate the DWR revenue requirement change, presented in AL 2647-E-B as a net decrease of approximately \$228million, entirely to the non-residential bundled customer classes thus implementing a revenue allocation and rate design inconsistent with the current allocation practice and the guidance set forth in the RDSA.

## **NOTICE**

Notice of AL 2647-E-B was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A. AL2647-E-B

was sent to parties on the list for A.00-11-038, A.04-06-024, and Investigation 02-04-026.

## **PROTESTS**

No protests on AL 2647-E-B were filed.

## **DISCUSSION**

Energy Division has reviewed PG&E AL 2647-E-B. Discussion of the relevant facts that lead to the approval of this advice letter is below.

**PG&E's request to revise its revenue allocation and rate design in a manner inconsistent with the RDSA as proposed in AL 2647-E-B is conditionally approved effective June 1, 2005 pending the Commission's action on the Settlement Agreement in A.04-06-024.**

In AL 2647-E-B, PG&E requests to allocate the DWR revenue requirement in a manner inconsistent with system average percent change method (before a decision in Phase 2 of PG&E's GRC) as adopted in the RDSA and approved in D.04-02-062. Generally, the RDSA implements changes in revenue components on a system average percentage basis, changing the revenue requirement assigned to each customer class by the same percentage.

We conditionally approve PG&E's request to allocate the DWR revenue requirement decrease entirely to the non-residential class, so that total bundled residential customer class rates will not change as a result of the DWR revenue requirement decrease. The revenue allocation and rate design of the DWR revenue requirement decrease proposed in AL 2647-E-B is subject to later adjustment pending the Commission's evaluation of the Settlement Agreement in A.04-06-024.

It is appropriate to deviate from the revenue allocation principles approved in D.04-02-062 in this case. By conditionally approving AL 2647-E-B we retain the option to consider the Settlement Agreement in A.04-06-024 and still adjust rates on June 1, 2005. We note that AL 2647-E-B has not been contested by any party, and the advice letter was served on, among others, all parties to I.02-04-026 in which D.04-02-062 was issued.

PG&E provided “illustrative” rates in AL 2647-E-B with no revised tariff sheets. PG&E states in the advice letter that it intends to supplement AL 2647-E-B prior to June 1, 2005 with actual rates that will be charged to customers. PG&E has informed Energy Division that the illustrative rates included with AL 2647-E-B are the same rates that it proposes to implement on June 1, 2005, if we approve its proposal.

PG&E shall supplement AL 2647-E-B with filed revised tariff sheets within one day of the effective date of this order, to reflect rates approved herein. We authorize PG&E to make the rates filed in that supplemental advice letter effective on June 1, 2005. Given the unusually short time frame in this matter, Energy Division and other parties will not have had a chance to review the rates filed in this supplemental AL prior to June 1. The rates filed in the supplement will necessarily be reviewed by Energy Division for compliance after the June 1 implementation.

It is possible that after the June 1, 2005 effective date Energy Division, or a party reviewing the supplement, may discover compliance issues that require modification of rates filed in the supplement to AL 2647-E-B. In that event, PG&E shall modify the rates as required and re-bill customers if necessary, or make other appropriate adjustments, in a timely manner.

**In the event that the Commission rejects the revenue allocation proposed in the Settlement Agreement in A.04-06-024, PG&E must put in to effect the revenue allocation consistent with the RDSA as proposed in AL 2647-E-A.**

The revenue allocation and rate design of the DWR revenue decrease proposed in AL 2647-E-B is conditional pending Commission approval of the Settlement Agreement in A.04-06-024. The general criteria for Commission approval of settlements are stated in Rule 51.1(e), as follows:

The Commission will not approve stipulations or settlements, whether contested or uncontested, unless the stipulation or settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

If the Commission rejects the revenue allocation proposed in the Settlement Agreement, PG&E must adjust rates within 30 days of an order denying the Settlement Agreement to allocate the DWR revenue requirement reduction in a manner consistent with the RDSA, as proposed in AL 2647-E-A.

**If the Commission rejects the revenue allocation proposed in the Settlement Agreement in A.04-06-024, PG&E must file an advice letter to adjust rates and return to residential customers the portion of the DWR revenue decrease allocated to them under the terms of the RDSA going back to June 1, 2005.**

If the Commission does not approve the Settlement Agreement in A.04-06-024, PG&E is ordered to put into effect the rates from AL 2647-E-A within 30 days of an order which denies that portion of the Settlement Agreement. PG&E shall file a new advice letter to implement the DWR revenue requirement decrease as detailed in AL 2647-E-A. In that event, PG&E is ordered to further reduce residential rates, and increase non-residential rates, to collect from the non-residential customers and return with interest to residential customers the portion of the 2005 DWR revenue requirement decrease beginning June 1, 2005, that would have been allocated to residential customers under the RDSA.

**PG&E's request to increase residential Tier 3 and 4 rates to reflect the TACBAA increase to their class is approved on an interim basis.**

Assembly Bill (AB) 1X limits the total energy charges for residential usage in Tiers 1 and 2 up to 130% of baseline. AB1X requires that rates for up to 130% of baseline usage by residential customers cannot be raised above the level of those rates in effect on February 1, 2001.

We will allow PG&E to allocate the residential class share of the TACBAA revenue requirement increase to the upper tiers of residential generation rates as it has proposed on an interim basis. PG&E's proposed allocation method as filed in AL 2647-E-B is subject to modification pending the Commission's determination of how these revenues should be allocated in A.04-06-024.

**PG&E will track the TACBAA revenue that it collects from residential tier 3 and 4 rates resulting from AB 1X limitations on residential Tiers 1 and 2 in the Residential Generation Revenue Memorandum Account (RGRMA).**



Resolution E-3906 requires PG&E to track the revenues allocated to the upper tiers of residential generation rates associated with adjusting rates for residential usage below 130% of baseline to comply with AB 1X. The allocation of these revenues may be adjusted pending a decision in A.04-06-024.

PG&E established the RGRMA in compliance with Resolution E-3906 to track the revenues that it collects from the upper tiers of residential rates, associated with AB 1X restrictions. PG&E is required to track the revenues associated with the TACBAA revenue that it collects from residential tier 3 and 4 rates resulting from AB 1X limitations in the RGRMA.

### **COMMENTS**

Public Utilities Code section 311(g) (1) requires that draft resolutions be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period for this resolution has been reduced in accordance with the provisions of Rule 77.7(f) (9). Rule 77.7(f) (9) provides that the Commission may waive or reduce the comment period for a decision when the Commission determines that public necessity requires reduction or waiver of the 30-day period for public review and comment. For purposes of Rule 77.7(f) (9), “public necessity” refers to circumstances in which the public interest in the Commission’s adopting a decision before expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for review and comment, and includes circumstances where failure to adopt a decision before expiration of the 30-day review and comment period would cause significant harm to public health or welfare. The public necessity in this case is that the Commission needs to address PG&E's AL 2647-E-B prior to June 1, 2005, the date specified in D.05-04-025.

In this case, the public necessity requiring a reduction in the comment period outweighs the public interest in having the full 30-day period for review and comment. Thus, pursuant to Rule 77.7(f) (9), we provide for a shortened comment period.

On May 23, 2005 PG&E submitted comments in support of the draft resolution.

## **FINDINGS**

1. On March 17, 2005, the Commission issued D.05-03-024.
2. On April 1, 2005 PG&E filed AL 2647-E to comply with D.05-03-024.
3. On April 8, 2005, the Commission issued D.05-04-025, superceding D.05-03-024.
4. On April 21, 2005 PG&E filed supplemental AL 2647-E-A to comply with D.05-04-025.
5. On May 13, 2005 PG&E filed a Settlement Agreement in A.04-06-024.
6. On May 13, 2004 PG&E filed supplemental AL 2647-E-B.
7. A.04-06-024 is PG&E's 2003 GRC Phase 2 application to revise its electric marginal costs, revenue allocation, and rate design.
8. D.04-02-062 approved revenue allocation and rate design practice prior to the adoption of rates in Phase 2 of PG&E's 2003 GRC, as set forth in the RDSA.
9. In AL 2647-E-B, PG&E requests to implement the 2005 DWR revenue requirement reduction into rates in a manner which deviates from the RDSA approved in D.04-02-062.
10. AL 2647-E-B was not protested.
11. PG&E provided illustrative rates in AL 2647-E-B, and intends to file a supplement prior to June 1, 2005, with revised tariff sheets reflecting actual rates that will be charged to customers.
12. The Settlement Agreement filed in A.04-06-024 proposes that the residential class forgo revenue requirement reductions stemming from the 2005 DWR revenue requirement reduction, adopted in D.05-04-025.
13. Conditionally approving PG&E's proposal filed in AL 2647-E-B will allow the Commission to consider the Settlement Agreement filed in A.04-06-024.
14. Rule 51.1(e) states the general criteria for Commission approval of Settlements.
15. AB1X requires that residential rates for usage up to 130% of baseline cannot be raised above the level of those rates in effect on February 1, 2001.
16. In AL 2647-E-B, PG&E requests authorization to maintain residential rates for usage up to 130% of baseline usage at their current level and proportionally increase Tier 3 and 4 rates to reflect the TACBAA increase to their class.
17. Resolution E-3906 requires PG&E to track the revenues allocated to the upper tiers of residential generation rates associated with adjusting rates for

residential usage below 130% of baseline, to comply with AB 1X for possible reallocation in Phase 2 of PG&E's test year 2003 GRC, A.04-06-024.

18. PG&E established the RGRMA in compliance with Resolution E-3906.

**THEREFORE IT IS ORDERED THAT:**

1. The request of PG&E in AL 2647-E-B is conditionally approved as specified herein, with modifications.
2. PG&E's allocation and rate design of the 2005 DWR revenue requirement is conditionally approved pending Commission action in A.04-06-024.
3. Within one day of the effective date of this order, PG&E shall supplement AL 2647-E-B to file revised tariffs with rates authorized by this order to become effective on June 1, 2005. Rates filed in these tariffs shall be subject to later adjustment as necessary, pending Energy Division's review of their compliance with this order.
4. PG&E shall track the TACBAA revenue that it collects from residential tier 3 and 4 rates, resulting from AB 1X limitations on residential Tiers 1 and 2 in the RGRMA.
5. In the event that a later Commission Order rejects the Settlement Agreement filed on May 13, 2005 in A.04-06-024, PG&E shall within 30 days of that Order:
  - a. Put into effect the DWR revenue allocation consistent with the RDSA as filed in AL 2647-E-A.
  - b. File a new advice letter to implement the revenue allocation filed in AL 2647-E-A. This advice letter must further reduce residential rates, and increase non-residential rates, to collect from the non-residential customers and return with interest to residential customers the portion of the 2005 DWR revenue requirement decrease beginning June 1, 2005, that would have been allocated to residential customers under the RDSA.
6. This Order is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 26, 2005; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

MICHAEL R. PEEVEY  
PRESIDENT  
GEOFFREY F. BROWN  
SUSAN P. KENNEDY  
DIAN M. GRUENEICH  
JOHN A. BOHN  
Commissioners